



## CEO's review

### The best year in Vaisala's history

Year 2005 was a good year for Vaisala. Net sales grew after two years' standstill. At EUR 197.9 million, the net sales are the highest ever, and 11 % higher than last year. The IFRS compliant profit grew 18.5 % compared to the previous year, and now stands at EUR 24.9 million, or 12.6 % of the net sales. In reality, the improvement for 2005 is even better, because the result in 2004 included a one-off improvement of EUR 2.5 million.

### Reviving demand, improved efficiency and strategy renewal contributed to the result

Demand improved in 2005, after two years of descent. The North American market recovered particularly well, generating half of the sales growth. Sales in Europe also grew, generating 35 % of the growth. Markets improved in all customer segments as a result of general economic growth, which is normally witnessed with some delay in our niche.

Some internal measures have also improved the result. From the beginning of 2005, we merged the Vaisala Soundings and Vaisala Remote Sensing divisions together, forming the Vaisala Measurement Systems division. The potential for improved efficiency stemmed from similar business models and technologies. The restructuring of the organizational structures has improved efficiency. The improvement can be best witnessed in the Thunderstorm business.

The implications of the strategy renewal, carried out a couple of years ago, are also starting to show in the result. We streamlined the division functions based on business models. This has created a sound basis for the optimization of business processes and know-how, based on the specific characteristics of each business model. The strategy renewal also included the decision to offer all of our weather instruments to competing integrators, which has increased sales. At the same time, the turnkey solutions provider, Vaisala Solutions, has seen its operations crystallize thanks to a clearer focus. The results of this are also starting to show. The competitiveness of aviation weather systems has improved in particular.

Vaisala concentrates on environmental and industrial measurements. These business areas consist of small niche markets whose global sales are small, between EUR 10-150 million annually. We seek to be the global market leader in these niche markets. As the individual markets are small, continuous growth demands recurrent new business openings. This can be done either through organic growth or through acquisition. In 2005, we acquired CLH Inc. in the U.S. to expand our know-how in aviation weather services. Vaisala enters the weather radar business partly through organic growth and partly through an acquisition strategy. The integration of complete radars is launched through organic growth by developing a Vaisala radar. However, the heart of the radar systems, i.e. the signal processor and software, have been obtained through a business acquisition of Sigmet Inc. in the U.S. The Sigmet acquisition was completed on January 1, 2006.

Vaisala's competitiveness lies in a unique and diversified combination of know-how. We have further developed this know-how by focusing on understanding the customer applications.

We want to solve our customers' problems, not merely sell products. Measurement technologies require a good understanding of physics, electronics and IT, and we are strong in all these fields. Additionally, over one hundred Vaisala personnel have improved their meteorology know-how by participating in a training program organized together with the University of Helsinki and the Finnish Meteorological Institute.

Innovation Management is another important internal development project that got underway nicely in 2005. The development of new, globally successful business is an absolute necessity and the key to success for us. We want to utilize the best and most recent scientific findings in our everyday operations. Innovation Management has become a target of continuous development, along with quality and processes.

### Cautious optimism for the future

The market outlook at the beginning of 2006 is positive. However, the latest statistics on the slowdown of the national economies in the United States and Germany suggest we need to be cautious in our estimates. Therefore I will restrict my estimate to this: business in 2006 will remain on the level of 2005 with regards to both sales and profit. Better performance is possible, if positive market developments continue throughout the year.

The development of the radar business will burden the result. The outsourcing of the radiosonde assembly will progress well in 2006, but the actual cost-savings will not show until 2007.

It is possible that our innovation process, which is always open to new products, production methods, services, business models, and organization structures, can produce a new opening in 2006.

Year 2006 is a jubilee year for Vaisala, as the company celebrates its 70th anniversary. During the past years, Vaisala has evolved to become one of the most significant environmental measurement companies in the world. This is a position we wish to maintain in the future.

### Thank you

Year 2005 was successful in many ways. I want to express my thanks to all our customers, partners and owners for successful cooperation. Special thanks to the Vaisala personnel, whose innovative, responsible and hard work has produced these good results.



Pekka Ketonen  
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